

Message Text

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PAGE 01 BERN 02468 01 OF 02 011613Z

ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 IGA-02

/117 W

-----011645Z 024393 /42

R 011423Z JUN 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4434

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY VIENNA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 2468

PASS TREASURY AND FRB

USEEC, USMTN ALSO FOR USMISSION, USOECD ALSO FOR EMBASSY

VIENNA FOR ELLIS

EO 11652: NA

TAGS: EFIN SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAY 22-28

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC FELL
TO SF 2.50. GOLD PRICE DROPPED TO 144. INTEREST
RATES INCREASED FURTHER. GOVT REPORTED IT
MAY REFRAIN FROM FURTHER BORROWINGS. NEW AGREEMENT
IS EXPECTED SOON BETWEEN SWISS NATIONAL BANK AND
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PAGE 02 BERN 02468 01 OF 02 011613Z

COMMERCIAL BANKS ON CONTROL OF BANK ACTIVITY.
FOREIGN EXCHANGE DEALERS EXPRESSED VIEW THAT MULTINATIONAL
CORPORATIONS DO NOT PLAY DESTABILIZING ROLE.
JOURNAL DE GENEVE SUPPORTED US CALL FOR SURPLUS BALANCE OF
PAYMENTS COUNTRIES TO RUN DEFICITS. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: MARKETS WERE RELATIVELY QUIET

IN SPITE OF FLUCTUATING RATES. EXCHANGE DEALERS SAID DOLLAR RATE AGAINST SWISS FRANC FELL SLIGHTLY DUE TO ANNOUNCEMENTS OF RECORD US FOREIGN TRADE DEFICIT AND SLOWER GROWTH IN US LEADING ECONOMIC INDICATORS DURING APR, AS WELL AS INDICATIONS OF INCREASED US INFLATION WITH HIGHER PRIME LENDING RATE. DEALERS BELIEVE SWISS NATIONAL BANK INTERVENED TO PREVENT DOLLAR RATE FALLING BELOW SF 2.50. GOLD PRICE DECLINED FURTHER. DEALERS SAID FALLING PRICE OF GOLD AND OTHER METALS IN US WAS MAJOR FACTOR. ZURICH PRICE FELL TO 143. THURSDAY BEFORE RECOVERING TO 144 IN FRIDAY LIGHT TURNOVER. DEALERS SEE NO CLEAR TREND DEVELOPING AND ATTRIBUTED PRICE CHANGES TO TECHNICAL DEVELOPMENTS PRECEDING JUN 1 IMF GOLD SALE. RATES FOLLOW:

	5/23 (OPEN)	5/27 (CLOSE)
SPOT DOLLAR	2.5200	2.5052
FORWARD DISCOUNTS (PERCENT PER ANNUM)		
ONE MONTH	1.47	2.11
TWO MONTHS	1.69	2.01
THREE MONTHS	1.59	1.92
SIX MONTHS	1.73	1.96
TWELVE MONTHS	2.05	2.18
SF/DM	106.69	106.35
GOLD	146.50	144.25

3. CAPITAL AND MONEY MARKETS: MARKET WERE CALM. DISCUSSION CONTINUED BETWEEN SNB AND BANKS ON NEW UNCLASSIFIED

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PAGE 03 BERN 02468 01 OF 02 011613Z

CALL MONEY RATE. STOCK PRICES WERE MIXED; SKA INDEX (1959 EQUALS 100) SLIPPED SLIGHTLY TO 219.7. AVERAGE YIELD CONFEDERATION BONDS ROSE ABRUPTLY FROM 4.25 AT MID-WEEK TO 4.44 FRIDAY. DOMESTIC BORROWERS ANNOUNCED LOANS AT 4.5 AND 4.75 PERCENT INTEREST. NIPPON TELEGRAPHIC AND TELEPHONE SF 100 MILLION LOAN AT 5.5 PERCENT WAS REPORTED COMPLETELY SUBSCRIBED.

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PAGE 01 BERN 02468 02 OF 02 011638Z

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UNCLAS SECTION 2 OF 2 BERN 2468

PASS TREASURY AND FRB

USEEC, USMTN ALSO FOR USMISSION, USOECD ALSO FOR EMBASSY

VIENNA FOR ELLIS

4. GOVT BORROWINGS: FEDERAL COUNCIL REPORTED
TO PARLIAMENT THAT BALANCE OF CONFEDERATION ACCOUNT
WITH SNB IS NEARLY SF 3.5 BILLION. GOVT FOLLOWED
POLICY OF LONG-TERM BORROWING AT LOW INTEREST
RATES SINCE 1975, TAKING INTO ACCOUNT POSSIBLE
IMPACT ON MARKET CONDITIONS, TO BUILD UP RESERVES
GREATER THAN ANTICIPATED CURRENT DEFICITS. IN
1976 SF 4.4 BILLION WAS BORROWED, SF 1 BILLION FOR
PRE-FINANCING PROJECTS AND SF 2 BILLION FOR
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PAGE 02 BERN 02468 02 OF 02 011638Z

TREASURY RESERVES. END 1976 LIQUIDITY EXCEEDED
EXPECTATIONS BECAUSE INTEREST RATES DECLINED,
ECONOMIC STIMULATION PROGRAMS HAD GONE SLOWER
THAN EXPECTED, AND SEVERAL GOVT ADMINISTRATIONS
HAD DEFICITS SMALLER THAN ANTICIPATED. FEDERAL
ACCOUNT WITH SNB RECEIVES INTEREST EQUAL TO SNB
DISCOUNT RATE (TWO PERCENT) ON BALANCE ABOVE SF
500 MILLION. FAILURE OF SF 350 MILLION GOVT LOAN
IN FEB 1977 AME WHEN INTEREST RATES REACHED
LOWEST LIMIT. GOVT, THEREFORE, IS IN POSITION

TO REFRAIN FROM FURTHER BORROWINGS UNTIL MARKET LIQUIDITY AND INTEREST RATES CONFORM WITH GOVT POLICY OBJECTIVES.

5. BANK ACCORD: SWISS NATIONAL BANK AND SWISS BANKERS' ASSOCIATION ARE REPORTED ON VERGE OF REACHING NEW AGREEMENT ON EXTENT OF SNB CONTROL OVER BANKS. NEW AGREEMENT IS EXPECTED TO INCLUDE SEVERAL RULES REGARDING BANK CONDUCT CONCERNING ACCEPTANCE OF FOREIGN SOURCE DEPOSITS. SNB PRESIDENT LEUTWILER TOLD PRESS HE EXPECTS EARLY AGREEMENT ON NEW ACCORD ON BANK SECRECY THAT SHOULD BE ACCEPTABLE TO MOST SWISS BANKS AND SHOULD NOT AFFECT THEIR TRADITIONAL ROLE. FEDERAL BANK COMMISSION WOULD ENFORCE EXPECTED NEW AGREEMENT ON NON-ACCEPTANCE OF ILLEGAL CAPITAL EXPORTS FROM OTHER COUNTRIES. BANKS ARE EXPECTED TO AGREE TO INCREASED CONTROLS IN WAKE OF CHIASSO SCANDAL RATHER THAN RUN RISK OF PARLIAMENT ADOPTING EVEN STRONGER MEASURES WHEN IT DEBATES BANK CONTROL DURING JUNE 6-24 SESSION.

6. FOREX MEETING: REPORT OF FOREX MEETING AT MONTREUS INDICATED GENERAL VIEW THAT MULTI-NATIONAL CORPORATIONS DO NOT HAVE DESTABILIZING IMPACT ON EXCHANGE RATES OR ON INDIVIDUAL COUNTRIES'

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PAGE 03 BERN 02468 02 OF 02 011638Z

BALANCE OF PAYMENTS. HOWEVER, BANKERS EXPRESSED DESIRE FOR GREATER VISIBILITY OF MNC'S EXCHANGE TRANSACTIONS. MNC REPS REQUESTED IMPROVEMENT QUANTITY, QUALITY OF INFO FROM BANKS ON COUNTRIES WITH INVESTMENT POSSIBILITIES. SEVERAL PARTICIPANTS CALLED FOR GREATER CONTACT BETWEEN MNC'S AND CENTRAL BANKS ON OVERSEAS INVESTMENT PLANS.

7. WORLD ECONOMIC RECOVERY: JOURNAL DE GENEVE EDITORIAL MAY 27 EXPRESSED UNDERSTANDING FOR RELUCTANCE BY SURPLUS COUNTRIES TO RUN DEFICITS AS US HAS URGED. HOWEVER, JOURNAL SAID THIS IS UNHEALTHY AND SHORT-SIGHTED POSITION WHICH RUNS RISK OF BRINGING ON GREATER ECONOMIC PROBLEMS WHICH WILL MOSTLY HURT COUNTRIES NOW RUNNING SURPLUSES.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, ECONOMIC REPORTS, FINANCIAL DATA
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Decaption Note:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770195-0201
Format: TEL
From: BERN
Handling Restrictions: n/a
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Office: ACTION EUR
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
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Review Action: RELEASED, APPROVED
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2007184
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Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF MAY 22-28
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odbs://SAS/SAS.dbo.SAS_Docs/cf079e73-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009